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March 31, 1997

The Secretary
Federal Communications Commission
1919 M St. NW
Washington DC 20554

Dear Sir:

I submit the attached comments, signed by eighteen individuals from Latin America and the United States, in regard to the proposed rulemaking on International Settlement Rates, IB Docket No. 96-261.

This filing was organized as part of the *InfoAmericas 2000* project, an internet-based project on telecommunications in the U.S. and Latin America.

I may be reached at the address below, or at peters@infoamericas.org.

Thank you.

Sincerely,

Philip Peters
Senior Fellow

Enclosed: Comments (five copies)

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COMMUNICATIONS COMMISSION
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International Telephone Rates, Open Telecom Markets and Public Welfare: A Western Hemisphere Perspective

Comment Submitted to the Federal Communications Commission
In the Matter of International Settlement Rates
IB Docket No. 96-261

March 31, 1997

The undersigned individuals from Latin America and the United States wish to express our support for the FCC's initiative to reduce accounting rates on switched international telephone traffic.

Lower accounting rates will accelerate the transition to market-based telecommunications systems, which are essential to the competitiveness of businesses and economies in our region. They are also a necessary counterpart to the commitments made in the Basic Telecommunications Services agreement reached February 15 at the World Trade Organization in Geneva.

New technology has transformed the telecommunications marketplace, making a range of consumer services available that was not possible a decade ago, and introducing new means of communication that are beginning to circumvent the standard international switched telephone traffic that has long been the norm in international telephony.

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There is ample evidence that the single-carrier model of telecommunications service is obsolete, and that competition-based systems offer the widest array of services at the lowest cost to the broadest possible segment of the public. The following examples illustrate some of the benefits of competition, and the high opportunity costs incurred under monopoly-based systems.

- A survey of Asia and Latin America published by the World Bank showed that competitive markets experience greater growth in telecom employment and greater growth in teledensity than monopoly markets.

- The introduction of competition in Chile reduced domestic and international long distance rates by over 20 percent as usage of those services doubled; increased the number of carriers offering telecom services; and accompanied a continued increase in teledensity.

- The introduction of competition in the U.S. market increased telephone usage, cut long-distance rates 60 percent, boosted telecom sector employment as new carriers and new services entered the market, and led telephone carriers to develop new services tailored to the needs of specific consumer sectors such as international travelers, business users, internet users and immigrants.

Technological change, international agreements and the forces of competition are combining to put downward pressure on international accounting rates. However, artificially high rates -- rates higher than the true cost of completing calls plus a reasonable margin approximating the profit obtained in competitive markets -- remain in force in many countries because monopoly carriers are able to use their undue market power to maintain them. This is a particularly urgent problem in Latin America, where accounting rates are over twice the OECD average, and have declined at a very slow pace.

The FCC's initiative constitutes a useful additional instrument to obtain reductions in these rates. It is a measured proposal. It allows time for countries to plan and adjust, and it gives ample opportunity for countries to accelerate the introduction of competition to their markets -- a development that would itself drive rates down, potentially rendering the FCC action irrelevant. It has been criticized as a unilateral measure, and it is indisputably unilateral. So too, however, are the artificially high charges that result from telephone monopolies. And regardless of the process by which the FCC is pursuing its proposal, it is clear that its substance -- lower rates -- will bring benefits to individuals and businesses (even including carriers now enjoying monopoly positions) throughout our region.

Moreover, we are convinced that many of the concerns regarding the FCC's proposal are based on a static analysis of telecom markets, and fail to take into account the changes that lower rates and greater competition will bring: increased volume of traffic, a broader range of telecom services, and greater economic development for individuals, firms and nations that take full advantage of modern telecommunications links.

We believe that a reduction in accounting rates as envisioned in the Commission's initiative will bring four principal benefits:

1. The most fundamental benefit to reduced accounting rates is an end to the overcharges that have been imposed on consumers who dial into countries with monopoly phone systems. These overcharges constitute a subsidy from foreign consumers to monopoly carriers; on a global basis, one analyst has estimated that they total $41 billion annually. To the extent that the high accounting rates distort traffic patterns and cause unduly high settlements, this subsidy is accentuated. While the FCC is motivated by a desire to cut costs for U.S. users, this benefit will accrue to consumers and businesses throughout our region as accounting rates decline.

2. Users in monopoly markets will also benefit. Lower accounting rates will drive down the rates charged by international "callback" operators. Carriers competing with "callback" will face pressure to lower their rates in order to avoid losing market share.

3. Accounting rate reform will eventually end the windfall revenues collected by monopoly providers. As a result, competition will replace monopoly as the optimal way for countries to maximize telecommunications revenue and expand service.

4. Market-based accounting rates will ensure that equal and reciprocal market access, as provided in the Geneva telecom agreement, will be based on truly equal market conditions. Absent a change in the accounting rates system, a monopoly carrier could use windfall

revenues from artificially high accounting rates to subsidize a facilities-based unit that would enter and compete in a competitive foreign market. Such a subsidy could be used to unfair competitive advantage through marketing efforts or predatory pricing.

While extensive data are not available to establish incremental costs, and while it is impossible for the FCC to measure with precision the cost of terminating international telephone calls around the world, the Commission's use of tariffed components prices seems a fair approximation that will more than cover incremental cost plus a reasonable return. Governments and carriers have the opportunity to respond to the proposed benchmarks by providing actual cost data. Such data, however, may reflect the inefficiencies that characterize noncompetitive markets. In evaluating this question, we urge the Commission to bear in mind the rates that obtain in truly competitive markets as the best proxies for actual incremental cost plus a market-based rate of return.

As more nations create competitive telecommunications markets, the need for governments to involve themselves in the setting of these rates will diminish and disappear. Markets, not governments, will one day ensure that consumers around the globe realize the tens of billions of dollars in savings that are now within reach. The principal merit of the Commission's initiative is that it brings us closer to that day.

Signed:

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